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August 1988 Monthly Survey

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Surveys of Consumers

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Income Growth Boosts Sentiment

Index Up Sharply

The Index of Consumer Sentiment was 97.4 in the August 1988 survey, up from 93.4 one month earlier and 94.4 one year earlier. The August 1988 reading was the highest recorded in more than two years. The recent improvement was due to more favorable assessments of personal finances as well as more favorable prospects for the economy as a whole.

Among families with incomes of $30,000 or more, the Index stood at 105.1 in the August 1988 survey, up significantly from 100.5 in July, and just ahead of the year earlier reading of 104.4.

Personal Finances Improve

Among all families in the August 1988 survey, 50 percent reported that their financial situation had improved, up from 45 percent recorded both one month and one year earlier. This represents the most favorable assessment ever recorded in the long history of these surveys. In only one other survey, conducted in May of 1965, did as many families report improved finances.

Increases in family incomes were mentioned more frequently in the August 1988 survey than at any other time during the past 20 years. Among all families in the August 1988 survey, 45 percent reported that their income had increased, up from 40 percent one month earlier and 36 percent one year earlier.

Despite the record gains in their current financial situation, families did not view their future financial prospects more favorably. Among all families in the August 1988 survey, 36 percent expected their financial situation to improve during the year ahead, down from the 38 percent recorded in July and the 39 percent recorded in August 1987. Importantly, the proportion of families that expected a worsening financial situation also fell, to just 9 percent in the August 1988 survey from 10 percent one month earlier and 12 percent one year earlier.

The most dominant expectation was that the recent financial gains would be preserved during the year ahead. Nearly half (49 percent) of all families in the August 1988 survey expected their financial situation to remain unchanged during the year ahead. Given their currently improved situation, that consumers expect their future financial position to remain unchanged is certainly a very positive outlook.

Outlook for Economy Improves

Consumers' assessments of current economic conditions in the country as a whole improved in the August 1988 survey. Half of all consumers (51 percent) reported that business conditions in August 1988 had improved over those of a year earlier, regaining all of the loss recorded following the stock market crash.

Moreover, consumers viewed future prospects for the economy more favorably in the August survey. Good times financially during the year ahead for the nation as a whole were expected by 52 percent of all families in the August 1988 survey, up from 44 percent in July, and just below the 55 percent recorded last August. Prospects for the economy over the next five years were also viewed more favorably. For the first time in more than two years, the August 1988 survey recorded more consumers that expected good rather than bad times financially over the longer term--by a margin of 43 to 38 percent.

These improved prospects for the domestic economy indicate that consumers expect that the long expansion will be extended for yet another year, not that more vigorous growth is expected during the year ahead.

The majority of families in the August 1988 survey (54 percent) expected the performance of the national economy to remain essentially unchanged during the year ahead, rather than to grow more rapidly (24 percent) or more slowly (16 percent).

A crucial factor underpinning this outlook is the continuation of favorable job prospects. The majority of consumers in the August 1988 survey expected the national unemployment rate to remain largely unchanged at its current low level during the year ahead (53 percent). On the margin, however, consumers view the risks of increased unemployment as more likely than further declines (27 versus 15 percent).

Interest Rate Increases Expected

Although overall assessments of the domestic economy improved, the expectation of increasing inflation and interest rates have remained widespread. Among all families in the August 1988 survey, 71 percent expected increases in interest rate during the year ahead, up sharply from the post crash low of 44 percent recorded six months earlier. Most of this heightened concern with interest rate trends was recorded by May 1988, when 64 percent expected increases. Just 7 percent of all families in the August 1988 survey expected interest rates to decline during the year ahead.

Inflation Expected to Increase

In the August 1988 survey, consumers continued to expect higher rates of inflation during the year ahead. In the August 1988 survey, consumers expected an annual inflation rate of 5.4%, just below the 5.6% recorded in both the June and July 1988 surveys. Although this represents a welcome easing of inflation fears, the 5.4% inflation rate expected during the year ahead still remains substantially above the 4.5% recorded last August, and the highest August reading since 1982.

Interestingly, when asked to assess the ability of government economic policies to control inflation and unemployment, families have expressed somewhat greater confidence even as inflation expectations have risen in recent months. In the August 1988 survey, 28 percent thought that the government was doing a good job, up from 25 percent in July and 18 percent in April--just before the recent increase in inflation expectations.

Buying Conditions Weaken

In contrast to the renewed strength in personal finances and the improved prospects for the national economy, favorable attitudes toward buying conditions declined somewhat, but still remained at favorable levels in the August 1988 survey. Importantly, rising interest rates have thus far had a limited impact on buying attitudes, as the appeal of borrowing-in-advance of anticipated increases in interest rates have temporarily offset some of the losses.

Favorable attitudes toward home buying conditions were held by 67 percent in August 1988, down from 72 percent one month earlier. Less favorable perceptions of both current home prices and mortgage rates were responsible for the small decline. References to low home prices fell to 18 percent in August from 24 percent in July. The proportion of consumers that cited the availability of low mortgage rates fell to 28 percent in August 1988 from 30 percent in July, while complaints about high mortgage rates rose to 14 percent from 11 percent. Offsetting these mortgage rate trends, more families mentioned the appeal of borrowing-in-advance of expected increases in mortgage rates, rising to 19 percent in August from 11 percent one month earlier.

Favorable car buying attitudes were held by 62 percent of all families in the August 1988 survey, identical to the June and July readings, but below the 66 percent recorded a year earlier. Fewer references to the availability of price discounts and rebates were recorded in the August 1988 survey, falling to 30 from 36 percent one year earlier. Compared with a year ago, however, the largest change has been in favorable references to interest rates on vehicle loans. Less than half as many consumers mentioned the availability of low interest rates on vehicle loans in August 1988 as August 1987 (16, down from 35 percent). Borrowing-in-advance of rising rates did increase, but only marginally, to 6 percent in August 1988 from 3 percent both one month and one year earlier.

Buying conditions for appliances, furniture, and home electronics were viewed favorably by 74 percent of all families in the August 1988 survey, down from 79 percent one month earlier, but equal to the year earlier reading. Favorable perceptions of market prices for these large household goods continue to maintain these attitudes at favorable levels.

Vehicle Loans

As shown in the accompanying charts, the average expenditure for new cars as a proportion of median family income has increased substantially over the past decade. In the second quarter of 1988, the average expenditure amounted to 46 percent of median family income. Although this figure has remained largely unchanged during the past two years, it is significantly higher than at the start of the decade, when it stood at 36 percent of income--a ten percentage point increase. In comparison to the large increases recorded during the early 1980s, during the 1970s new car expenditures remained relatively constant, averaging between 34 and 36 percent.

As the average expenditure on new cars has risen, so too has the average maturity of new vehicle loans. By mid 1988, the average repayment period for new vehicle loans rose to just over 56 months, nearly a year longer than recorded at the start of the current expansion. Since the start of the 1970s, the repayment period on the average new car loan has gone from three to nearly five years.

This lengthening over the past decade has had the effect of keeping monthly payments as a proportion of income at a relatively constant level at about 11 percent. At mid 1988, the monthly payment on new vehicle loans amounted to 10.5 percent of median monthly family income, down from a high of 12.2 percent during the recession year of 1982.

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The August 1988 survey included 500 completed interviews conducted between August 1 and August 30, 1988. Note that the July 1988 data was revised, resulting in very minor changes in some of the data series. The revised data are reported in the current booklet of tables.